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Current & Future Early Retirement Age Reductions

Social security legislation enacted in 1983 affected railroad retirement benefits through coordinating provisions of the Railroad Retirement Act. As a result, beginning in the year 2000, the age requirements for some unreduced railroad retirement benefits are scheduled to rise just like the social security requirements. The minimum age requirements for railroad retirement benefits will not change, but the maximum early retirement annuity reduction will increase.

The following questions and answers explain these future changes in early retirement annuity age reductions.

1. What are the railroad retirement age requirements and early retirement reductions for employees?

Employees with 10 to 29 years of creditable service are eligible for regular annuities based on age and service the first full month they are age 62. Early retirement reductions are now applied to such annuities awarded before age 65. Starting in the year 2000, the age at which full benefits are payable increases in gradual steps until it reaches age 67. Reduced annuities will still be payable at age 62, but the maximum reduction will be 30% by the year 2022, rather than the current 20%. However, if an employee had any creditable railroad service before August 12, 1983, the early retirement reduction for tier II purposes will remain 20%.

Employees with 30 or more years of service are eligible for regular annuities based on age and service the first full month they are age 60. The early retirement reductions described above are applied *only* to tier I benefits and *only* to annuities awarded before age 62.

2. Does this mean that the annuities of 30-year employees retiring at age 62 are not affected by the future change in age reductions?

Yes. Age reductions are not applied to the annuities of 30-year employees retiring at age 62.

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3. Will these changes in age reductions affect employee disability annuities?

No. Employee annuities based on disability are not subject to age reductions.

4. How is the change in the maximum age reduction being phased in starting with the year 2000?

The full retirement age for employee benefits increases from 65 to 66 and from 66 to 67 at the rate of two months per year over two separate six-year periods. Full retirement age is the earliest age at which unreduced retirement benefits can be received. The following two charts show how this change will affect employees.

Employee Retires with Less than 30 Years of Service

Year of Birth	Full Retirement Age	Annuity Reduction at Age 62
1937 or earlier	65	20.00%
1938	65 and 2 months	20.833%
1939	65 and 4 months	21.667%
1940	65 and 6 months	22.50%
1941	65 and 8 months	23.333%
1942	65 and 10 months	24.167%
1943 through 1954	66	25.00%
1955	66 and 2 months	25.833%
1956	66 and 4 months	26.667%
1957	66 and 6 months	27.50%
1958	66 and 8 months	28.333%
1959	66 and 10 months	29.167%
1960 or later	67	30.00%

Employee Retires at Age 60 or 61 with 30 Years of Service

Year of Birth	Reduction in Tier I Portion of Annuity
Before 1938	20.00%
1938*	20.833%
1939*	21.667%
1940	22.50%
1941	23.333%
1942	24.167%
1943 through 1954	25.00%
1955	25.833%
1956	26.667%
1957	27.50%
1958	28.333%
1959	29.167%
1960 or later	30.00%
*Only a 20% reduction if retirement is before the year 2000.	

5. How would these future changes in retirement age affect the amounts payable to employees retiring at age 62 with 10-29 years of service?

Take the example of an employee born on June 2, 1950, who retires in 2012 at the age of 62. In terms of today's dollars and current benefit levels, not counting future increases in creditable earnings, assume this employee is eligible for monthly tier I and tier II benefits, before age reductions, of $800 and $500, respectively, for a total monthly benefit of $1,300.

Upon retirement at age 62, the employee's tier I benefit would be reduced by 25%, the maximum age reduction applicable in 2012, which would yield a tier I monthly benefit of $600; the employee's tier II benefit would also be reduced by 25%, providing a tier II amount of $375 and a total monthly rate of $975. However, if the employee had any rail service

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before August 12, 1983, the tier II benefit would be subject to a maximum reduction of only 20%, providing a tier II amount of $400, and a total monthly rate of $1,000.

For an employee eligible for a total monthly benefit, before age reductions, of $1,300, but who retires in 2022 at age 62 with no service before August 12, 1983, and with a 30% reduction applied to both tier I and tier II benefits, the net total annuity would be $910.

6. Currently, 30-year employees who retire at ages 60 or 61 have their tier I benefits permanently reduced by 20%, the maximum age reduction for employees. How will the changes in the maximum age reduction affect this calculation?

The maximum age reduction in effect in the year the employee *attains* age 62 would be used in computing his or her initial tier I benefit.

For example, an employee was born on June 2, 1942, and retires in 2002 at age 60. Although his gross tier I monthly benefit would be $1,000, his age reduction is 24.167%, which yields an initial net tier I amount of $758. This is because the maximum age reduction in 2004, the year in which he attains age 62, is 24.167%, as shown in the chart.

This tier I benefit would be frozen until the first month throughout which the employee is age 62. It would then be recomputed to reflect interim increases in national wage levels and would also become subject to future cost-of-living increases. After this recomputation, the gross tier I benefit of the employee would then be reduced by 24.167%.

7. How will railroad retirement spouse benefits be affected by this change?

If a retired employee with 10-29 years of service is age 62, the employee's spouse is also eligible for an annuity the first full month the spouse is age 62. Early retirement reductions are now applied to the spouse annuity if the spouse retires prior to age 65. Beginning in the year 2000, full retirement age for a spouse will gradually rise to age 67, just as for an employee. While reduced spouse benefits will still be payable at age 62, the maximum reduction will be 35% by the year 2022, rather than the current 25%. However, if an employee had creditable rail service prior to August 12, 1983, the increased age reduction is limited to the spouse's tier I benefit.

Take for an example the spouse of a railroader with 10-29 years of service, none of it prior to August 12, 1983, retiring in 2022 at age 62, with a spouse annuity in terms of today's dollars and current benefit payments and before any reductions for age, of $500 a month. With the maximum reduction of 35% applicable in 2022, her net monthly benefit would be $325, while if this same spouse were retiring today with the maximum age reduction of 25%, her net monthly benefit would be $375.

If a retired employee with 30 years of service is age 60, the employee's spouse is also eligible for an annuity the first full month the spouse is age 60. The tier I early retirement reductions are applied to such a spouse annuity if the employee retires before age 62, unless the employee attained age 60 and completed 30 years of service prior to July 1, 1984. If a

30-year employee retires at age 62, an age reduction is not applied to the spouse annuity even if the spouse retires at age 60 rather than age 62, unless the employee retired on the basis of disability.

In reduced 60/30 spouse cases, the tier I benefit is equal to ½ of the employee's reduced tier I on the employee's annuity beginning date and is also frozen until the first month *throughout which both* the employee and spouse are age 62. At that time, it is recomputed based on ½ of the employee's *gross* tier I amount. It is then reduced for each month the spouse is under full retirement age. If at the time of recomputation the spouse is already at full retirement age, or the spouse has a minor or disabled child in care, no age reduction would apply.

The spouse of a disability annuitant (who is otherwise eligible for a 60/30 age annuity) may receive a greater age reduction than other 60/30 cases. If the spouse is entitled based on having a minor or disabled child in care, there is no age reduction.

8. Will these changes also affect survivor benefits?

Yes, while reduced benefits will still be payable at age 60, beginning in the year 2000 the eligibility age for a full widow(er)'s annuity will also gradually increase from age 65 to age 67.

Under current law, a widow(er), surviving divorced spouse or remarried widow(er) *whose annuity begins at age 65* or later receives the full benefit amount without any age reduction. For one whose *annuity begins at ages 60-64*, a reduction is made for each month the widow(er) is under age 65, except that for a widow(er), the maximum reduction is for 36 months, which comes to 17.1%. For a surviving divorced spouse or remarried widow(er), the maximum reduction is for 60 months, which comes to 28.5%. For a disabled widow(er), disabled surviving divorced spouse or disabled remarried widow(er), the maximum reduction is also for 60 months, even if the annuity begins at age 50.

The eligibility age for a full widow(er)'s annuity will gradually rise from 65 to 67 beginning in the year 2000. The maximum reductions will ultimately be 20.36% for widow(er)s and remain at 28.5% for surviving divorced spouses, remarried widow(er)s, disabled widow(er)s, disabled surviving divorced spouses and disabled remarried widow(er)s.

Take for an example a widow currently eligible for an unreduced monthly benefit of $800 at age 65 and a reduced benefit of $663 at age 60. In the year 2022 she would not be eligible for the unreduced monthly benefit of $800 until age 67, and at age 60 the required reduction of 20.36% would yield a net benefit of $637.

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9. Will this change in age requirements have any effect on the delayed retirement credits provided to employees who delay retirement past full retirement age or the earnings restrictions applicable to annuitants who work after retirement?

Yes. Tier I benefits are increased for each month an employee delays retirement past full retirement age, currently age 65, up until age 70. Delayed retirement credits are also given if benefits are withheld because of earnings deductions after full retirement. Beginning in the year 2000, the incremental increase in full retirement age from age 65 to age 67 will reduce the number of months counted in determining the amount of delayed retirement credit which may be allowed for purposes of tier I computations under the Railroad Retirement Act.

Like social security benefits, railroad retirement benefits are subject to earnings deductions if post-retirement earnings exceed certain exempt amounts. Under current law, for those under age 65, the earnings deduction is $1 in benefits for every $2 of earnings over the exempt amount, which is $9,120 in 1998. For those ages 65-69, the deduction is $1 for every $3 of earnings over the exempt amount, which is $14,500 in 1998. The change in age requirements will extend the period of time between age 60 and full retirement age during which an annuitant is subject to the lower annual exempt amount for purposes of assessing deductions against his or her annuity.

Also, the special work restrictions applicable if an employee's annuity is based on disability limit his or her earnings, in effect, to under $5,000 a year. Currently, these disability work restrictions cease upon a disabled employee annuitant's attainment of age 65, when the annuitant becomes subject to the work and earnings restrictions applicable to employee annuities based on age and service. The change in age reductions will gradually extend the period of time during which an employee receiving a disability annuity is subject to this special earnings limitation.

10. How did these changes in future retirement benefits come about?

These 1983 changes to social security law, incorporated into the Railroad Retirement Solvency Act enacted later that year, were recommended by a bipartisan social security commission as a funding measure on the basis of the increasing number and longevity of social security beneficiaries.

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